UNIT 2

INDIA'S FOREIGN TRADE PRE INDEPENDENCE

India's foreign trade was largely determined by the strategic needs of the British colonial powers prior to its independence in 1947 Like other colonies, India too was a supplier of raw materials and agricultural commodities to Britain and other industrial countries and it used to import the manufactured goods from Britain.
The dependence of colonial India on Britain for manufactured goods hindered the process of industrialization and obliterated the indigenous handicraft and cottage industries.
Britain held the monopoly over India's imports and exports. Therefore, most of the foreign trade was restricted only to Britain, while the rest half was allowed to trade with other countries like Ceylon (Sri Lanka), China, and Persia (Iran).
India was a large exporter in the colonial period. However, it did not affect the country's economy. Commodities like food grains, clothes, kerosene, etc., hit the country hard with its scarcity.
Prior to independence, India was typically a colonial economy, based primarily on the agricultural sector.
Major portion of India's trade was controlled by the British rulers who exploited the country's resources by exporting the goods to England at cheaper rates.

As a part of the British strategy, India had to export more than its imports prior to World War II, so as to meet the unilateral transfer of payments to Britain by way of the salaries and pensions of the British officers, both military and civil, dividends on British capital invested in India, and interest on sterling loans.
This helped India to achieve a favourable trade balance. In April 1946, India was able to build a huge sterling balance of Rs. 17.33 billion, even after paying of the sterling debt. However, the share of raw materials in India's exports declined from 45 per cent in 1938-39 to 31 per cent in 1947-48 whereas the share of manufactured goods increased from 30 per cent in 1938-39 to 49 per cent in 1947-48.

INDIA'S FOREIGN TRADE AFTER INDEPENDENCE

Since the time of independence in 1947, India's foreign trade has shown a significant positive growth. It was only after independence that India's trade patterns began to change in view of its developmental needs. India, as a newly independent country, had to import equipment and machinery that could not be manufactured domestically, in order to create new production capacity and build infrastructure, known as developmental imports.

It also had to import intermediate goods and raw material so as to make full use of its production capacity, known as maintenance imports.

Moreover, as a newly developing country, it had to import consumer goods such as food grains that were in short supply domestically, in order to curb inflationary pressures. Such heavy dependence on imports adversely influences a country's balance of trade. It necessitates the need to expand exports to finance its imports.

However, the exports increased remarkably at 30.8 per cent in 2004-05 and thereafter grew at around 23 per cent till 2007-08. A negative growth in exports was witnessed in the last three decades in 2001-02, exports declined by 1.6 per cent, in 1998-99 by 5.1 per cent, in 1991-92 by 1.5 per cent, and in 1985-86 by 9.9 per cent.

It is also interesting to note that the growth of India's exports has been much lower than that of some of the South East Asian economies whose share in international world trade rapidly increased.

From the time of independence, India has been one of the important trading countries, exporting primary items like cotton, raw silk, sugar, wool, jute, indigo, etc. Moreover, it is an importer of finished consumer goods like woollen clothes, cotton, silk, and capital goods like light machinery manufactured in Britain. After independence, Indian government was facing a major problem related to economic development of the country.

At that time growth economy conditions were not very good because it did not have proper resources for the development, not only in terms of natural resources but also in terms of financial and industrial development.

At that time India's foreign trade was regulated through economic planning.

Thereafter, the government of India has announced many programs related to Economic Reforms in India. Liberalization, Privatization and Globalization (LPG) model is one of them.

The concept of globalization and liberalization was introduced in this era and it got momentum through process of economic integration.

In the post liberalization period, rate of growth of import and export increased manifold.

Many export promotion policies were started after liberalization.

Various schemes have been introduced by the government from time to time to encourage exports, such as

- Export Promotion Capital goods (EPCG),
- Duty Entitlement Passbook (DEPB),
- Software Technology Parks (STPs),
- Special Import License (SIL),
- Agri Export Zones (AEZ),
- Export Oriented Units (EOUs),
- Duty Free Replenishment Certificate (DFRC),
- Special Economic Zones (SEZs),
- Electronics Hardware Technology Parks (EHTPs), and
- Biotechnology Parks (BTPs).

In 1991, the major program of economic reform were introduced which emphasize on external sector wherein the protective tariffs were decreased, changes into foreign investment and the restrictive import licensing system was relaxed and simplified.

This policy mainly focused on liberalization of capital goods and imports from industry for encouraging the domestic and export oriented growth.

India's trade was changed significantly into the post reform periods.

After the New economic reforms, volume of trade rose up and composition of trade was also frequently changed.

India's chief exports involve machinery items, chemicals, precious and semi-precious stones and electronic goods.

On the other hand, side major imports were involved fertilizers, gold, petroleum and petroleum products.

Through the introduction to new economic reforms, there was also an enlargement of the direction of India's foreign trade with the new other countries and regional trading blocs.

Before these reforms, India's exports were limited to OECD and OPEC countries but after the new economic policy our country turn towards the new Asian countries and consequently China became a major trading partner of India.

In terms of direction, traditionally EU and USA was the major trading partners of India but from the last few years this scenario has been changed and India's trade is increasing with mainly East Asian countries.

1. Colonial exploitation during the british rule.
2. British used our natural resources as raw materials for their domestic industrial inputs.
3. Exploited as a market for the british industrial goods.
4. Decay of Indian handicrafts.
5. Balance of trade was favourable.
6. 1946-47 Net exports were 31 crores and in 1947-48 it shrunk to 14 crore.
7. Direction of foreign trade was largely confined to Britain.
8. The composition of trade indicated backwardnes of economy.

RECENT RENDS IN INDIA'S FOREIGN TRADE

Since India opened its markets starting 1990-91, there has been an exponential rise in the country's foreign trade exposure – exports have increased more than 16 times and imports more than 19 times. In FY 2020-21, India's imports and exports stood at US$394.43 billion and US$291.80 billion, respectively.

While the global trade slump sprung by the COVID-19 pandemic is expected to outlast the global crisis following 2008-09, India's foreign trade statistics offers scope for optimism. Foreign trade saw a dip of 6.8 percent for India – a better performance than the forecasted 9.2 percent decline in global trade by the World Trade Organisation (WTO) in October 2020.

Despite the subsequent economic downturn during the pandemic, foreign trade for FY 2020-21 saw expansionary trends developing in certain sectors and destinations owing to unique market demand and supply chain disruptions. In this article, *India Briefing* breaks down major trends in India's foreign trade in FY 2020-21.

India's Top Export Items (2020-21)

No.	Items	Values in US$ billion	% share in total imports
1	Mineral fuels, including oil	26.9	9.2
2	Gems, precious metals	26.1	8.96
3	Pharmaceuticals	19.4	6.64
4	Mechanical appliances	18.95	6.49
5	Organic chemicals	17.95	6.15
6	Electric machinery	14.2	4.87
7	Vehicles	13.6	4.67
8	Iron and steel	12.1	4.15
9	Cereals	10.1	3.46
10	Plastic, plastic articles	6.8	2.35

India's Top Import Items (2020-2021)			
No.	**Items**	**Values in US$ billion**	**% share in total imports**
1	Mineral fuels, including oil	99.7	25.2
2	Gems, precious metals	55.1	13.9
3	Electrical machinery	46.6	11.8
4	Mechanical appliances	37.03	9.3
5	Organic chemicals	19.7	4.9
6	Plastic, plastic articles	13.3	3.3
7	Animal/vegetable fats, oils, waxes	11.3	2.8
8	Optical, technical, medical apparatus	8.5	2.17
9	Iron and steel	8.2	2.09
10	Inorganic chemicals	6.8	1.745

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India imports maximum amount of tea from Nepal. The uncertain global trade situation caused by the pandemic severely hit global merchandise trade in 2020, and India was not immune to the impact. Exports in FY 2020-21 amounted to a total of US$291.8 billion, declining 6.8 percent.

Among the top exported items – mineral fuels (oil) and gems and precious metals were the two most exported items, for a combined share of 18 percent.

2021 also predictably witnessed a surge in the performance of the pharmaceutical industry, whose production accounted for the third most exported category of items for the financial year. Since last year, India's pharmaceutical industry has benefited from new investment flows, partnerships in vaccine production and biotechnology, and manufacturing incentive (Production-Linked Incentives or PLI) schemes besides growth in organic demand.

Imports during FY 2020-21, on the other hand, saw a decline of more than 16 percent, amounting to US$394 billion. Mineral fuels and precious stones and metals remained the top imported items, with an increased demand for animal/vegetable fats and oils.

It is worth noting that raw materials and intermediates account for a considerable proportion of India's exports, while finished products have an overwhelming presence in India's imports basket.

Despite its promising growth, exports alone may not be sufficient to drive growth in the long run if they continue to be dominated by raw materials and intermediates. It lies in India's interest to develop and diversify its manufacturing capacity to utilize its own abundant raw material and move up the value chain to meet domestic as well as foreign demand.

India's Top Export Destinations

No.	Countries	Values in US$ billion	% share in total imports
1	USA	23.3	17.80
2	China	8.8	6.78
3	UAE	8.7	6.70
4	Singapore	4.45	3.40
5	Bangladesh	4.19	3.20
6	Hong Kong	4.03	3.07
7	UK	3.12	2.38
8	Belgium	2.99	2.28
9	Germany	2.90	2.21
10	Netherland	2.89	2.20
11	Saudi Arabia	2.78	2.12
12	Indonesia	2.75	2.10
Total		**291.80**	**100**

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India's Top Import Destinations

No.	Countries	Values in US$ billion	% share in total imports
1	China	65.21	16.53
2	USA	28.88	7.32
3	UAE	26.62	6.74
4	Switzerland	18.23	4.62
5	Saudi Arabia	16.18	4.10
6	Hong Kong	15.17	3.84
7	Iraq	14.28	3.62
8	Germany	13.43	3.45
9	Singapore	13.30	3.37
10	South Korea	12.77	3.23
11	Indonesia	12.47	3.16
12	Japan	10.94	2.76
Total		**394.43**	**100**

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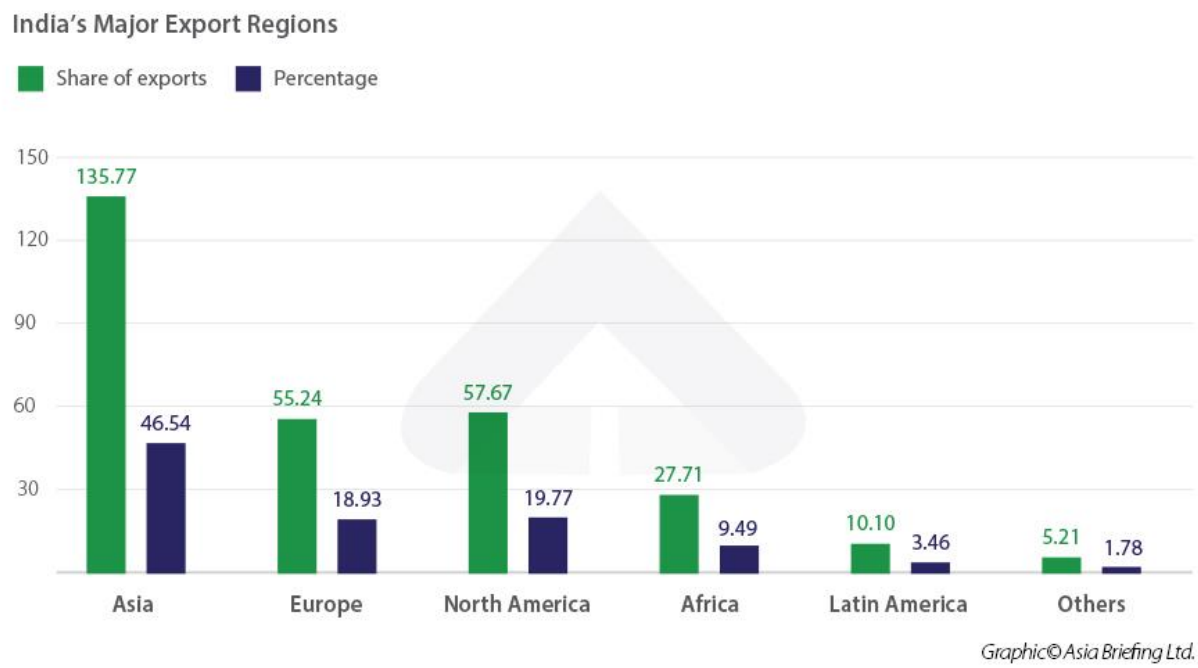
Exports to USA continued to dominate with a share of over 17 percent of India's total exports. This was followed by China and the UAE, swapping positions, as exports to the UAE dropped significantly in 2020-21.

For imports in FY2020-21, India's top three destinations were China, USA, and UAE, with imports from Switzerland rising to fourth top sourcing destination. Switzerland accounts for a significant proportion of India's precious metal imports, led by gold.



The Indian government withdrew from the Asia-Pacific Regional Comprehensive Economic Partnership (RCEP) in November 2019 due to the assessment that Indian exports were not flourishing to the region despite reduced non-tariff barriers (NTB) as ASEAN nations and India offer similar labor-intensive products in their export basket.

There has also been a shift in the approach towards global trade as India looks to build up trade exposure with western countries, a somewhat interesting development following geopolitical events like the US-China trade war, recent Australia-China trade tensions, and Brexit. Free trade agreement (FTA) negotiations are currently ongoing or planned to start in 2021 with the UK, European Union (EU), USA, Australia, and UAE. Both, the EU and UK are keen to re-establish their credentials as strong trade partners to India – eyeing its large consumption market and growing disposable incomes besides wanting to expand sourcing destinations.

COMPOSITION OF TRADE AND DIRECTION OF TRADE

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Composition of trade means a study of the goods and services of imports and exports of a country. In other words, it tells about the commodities of imports and the commodities of exports of a country. Therefore it indicates the structure and level of economic development of a country. Developing countries export raw materials, agricultural products and intermediate goods; developed countries export finished goods, machines, equipments and technique.

Direction of trade means a study of the countries to whom the exports are made and from whom the imports are made.

Composition of Imports of India

Imports of India may be divided into three parts namely capital goods, raw materials and consumer goods.

Imports of capital goods

Capital goods include metals, machines and equipments, appliances and transport equipments, and means of communications. These goods are essential for industrial development of the country. Imports of these goods amounted to Rs.356 crore in 1960-61 which increased to Rs.26, 532 crore in 1997-98.

Imports of raw materials and intermediate goods

It includes the imports of cotton, jute, fertilizer, chemicals, crude oil etc. A number of raw materials and intermediate goods have to be imported during the process of economic development. If amounted to Rs.527 crore in 1960-61 which increased to Rs.13, 966 crore in 1985-86. Petroleum products include crude oil, petrol and lubricating oil. Imports of these products have ever been increasing. In 1960-61, imports of these products amounted to Rs.69 crore which increased to Rs.30, 538 crore in 1997-98. Import of petroleum products constitutes about 23 percent of our total imports. Fertilizers are an important input for agriculture. Chemical products are an important input for industrial development. The import of these products is continuously increasing in India. In 1960-61 import of these items amounted to Rs.88 crore only which increased to Rs.3755 crore in 1997-98.

Imports of consumer goods

It includes the import of food grains, electrical goods, medicines, paper etc., India faced an acute shortage of food grains till the end of Third Five Year Plan. As a result, India had to import food grains in large quantities. Import of food grains in 1960-61 was 3748 thousand tonnes (Rs.181 crore). In 1997-98 it was 1399 thousand tones. Now India has achieved self-reliance in food production.

Direction or sources of imports of India

Sources of imports of India have undergone several important changes during the planning period. Some important facts are as follows:

At the beginning of economic planning, we were importing from selected countries only. Now the picture has changed. We import different goods and services from different countries of the world. At present we get our imports from almost all the countries of the world. For the purchase of machines and equipments, we depend mainly on OECD (Organization for Economic Cooperation and Development) countries and East European countries. For the supply of food grains and petroleum products, we depend on OPEC (Oil Producing and Exporting Countries) countries. The OECD countries supply largest part of our imports. In 1997-98 out of the total imports of Rs.1,51,553 crore, the imports of Rs.75,593 crore were made (49.9%) from these countries. Other important suppliers of our imports are USA, Belgium, Germany, Japan and Britain.

Composition of exports of India

Exports of India may be divided into two parts I) Exports of traditional items and ii) Exports of non-traditional items.

Exports of traditional items

It includes the exports of tea, coffee, jute, jute products, iron ore, species, animal skin, cotton, fish, fish products, mineral products etc. At the beginning of the planning era, their items contributed about 80 percent of out total exports. Gradually, the contribution of these items is declining and that of non-traditional items is increasing. At present the contribution of traditional items is about 18.8% in our total exports.

Non-traditional items

It includes the export of sugar, engineering goods, chemicals, iron and steel electrical goods, leather products, gems and jewellery. There is a significant change in the pattern of exports of India during recent years. India has started to export a number of non-traditional items to a number of countries of the world. Contribution of these items is gradually increasing in total exports of India and shows a declining trend during some years also. Some facts to illustrate the changes are given below:

> Agriculture and allied products which constituted 20.4 percent of total exports in 1996-97, decreased to 18.8 percent in 1999-2000. ii) Ores and minerals which constituted 3.5 percent of total exports in 1996-97, decreased to 3 percent in 1999-2000. iii) Manufactured good which contributed 73.4 percent of total exports in 1996-97, increased to 75.7 percent in 1999-2000. iv) Crude and petroleum products constituted 1.4 percent of total exports in 1996-97 but decreased to 1.0 percent in 1999-2000. v) With regard to other items of exports which constituted 1.2 percent in 1996-97 increased to 1.3 percent in 1999-2000.

Direction of exports of India

During the planning era, several important charges have taken place in the destination of exports of India. At present, we deal with about 180 countries including many developed countries. Our major exports are directed towards the following countries:

OECD countries (Belgium, France Germany, U.K. North America, Canada, USA, Australia and Japan). Our exports which constituted percent of the total exports in 1990-91 increased to 55.7 percent in 1999-2000.

OPEC countries (Iran, Iraq, Kuwait, Saudi Arabia etc.). Our exports which constituted 5.6 percent of the total exports in 1990-91 increased to 10.0 percent in 1999-2000.

Eastern Europe (GDR, Romania, Russia etc.). Our exports which constituted 17.9 percent in 1990-91 decreased to 3.1 percent in 1999-2000.

Other LDC's (Africa, Asia, Latin America). Our exports

constitute 16.8 per cent in 1990-91, increased to 28.2 percent in 1999-2000.

To sum up, during the last five decades, significant changes have been observed in the volume, composition and direction of India's trade. Most of these changes have been in consonance with the development needs of the economy.